

## Message Text

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ACTION EB-08

INFO OCT-01 EA-07 ISO-00 FEA-01 ERDA-05 AID-05 CEA-01

CIAE-00 COME-00 DODE-00 FPC-01 H-01 INR-07 INT-05

L-03 NSAE-00 NSC-05 OMB-01 PM-04 USIA-06 OES-06

SP-02 SS-15 STR-04 TRSE-00 ACDA-07 /095 W

-----281121Z 026326 /11

R 280820Z APR 77

FM AMEMBASSY KUALA LUMPUR

TO SECSTATE WASHDC 7079

INFO AMEMBASSY BANGKOK

AMEMBASSY JAKARTA

AMEMBASSY MANILA

AMEMBASSY SINGAPORE

C O N F I D E N T I A L SECTION 1 OF 2 KUALA LUMPUR 2710

E.O. 11652: GDS

TAGS: ENRG, MY

SUBJECT: PETROLEUM ROUNDUP

1. SUMMARY: EXXON IS PROCEEDING WITH PREPARATIONS TO BEGIN FIRST PENINSULAR MALAYSIA PETROLEUM PRODUCTION. CONOCO IS STILL NEGOTIATING PRODUCTION SHARING AGREEMENT WITH PETRONAS. JOINT VENTURE AGREEMENT BETWEEN PETRONAS AND SHELL-MITSUBUSHI ON BINTULU LNG PROJECT EXPECTED SOON ON TERMS PETRONAS NOT PLEASED WITH. PETRONAS PRESENTLY TRYING TO GROW IN SLOW, STEP-BY-STEP MANNER BUT OTHER FORCES IN GOM FORCING MORE RAPID ACTION DUE TO EARLIER LNG TANKER ORDER. END SUMMARY.

2. ACCORDING TO EXXON MALAYSIA MANAGING DIRECTOR, EXXON HAS RECEIVED FINAL CLEACANCES FROM PETRONAS ON THREE CRITICAL POINTS OF WORK PROGRAM. EXXON THEREFORE PROCEEDING WITH PRODUCTION DEVELOPMENT ON EAST COAST OF PENINSULAR MALAYSIA. FIRST PRODUCTION PLATFORM SCHEDULED TO BE IN PLACE IN MAY WITH SECOND IN AUGUST. APPROVAL OF CERTAIN POINTS WAS GRANTED AFTER EXXON MADE PRESENTATION TO RAJA TAN SRI MOHAR, CHAIRMAN  
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OF PRIME MINISTER'S PETROLEUM ADVISORY COUNCIL, FOLLOWING VERY DIFFICULT, TIME-CONSUMING NEGOTIATIONS WITH PETRONAS. EXXON NOW FEELS THEY WILL BE ABLE TO KEEP ON SCHEDULE AND BEGIN CRUDE PRODUCTION BY END OF THIS YEAR. SINCE BEGINNING OF THIS YEAR EXXON HAS INCREASED ITS EXPATRIATE STAFF BY 50 AND HAS ABOUT 50-70 MORE FAMILIES ON THE WAY. THESE NEEDED

TO COMMENCE PRODUCTION. ACCORDING EXXON, LARGE NUMBER EXPATRIATES REQUIRED INITIALLY SINCE PETROLEUM EXPERTISE NOT AVAILABLE LOCALLY. NUMBER EXPATRIATES EXPECTED DECLINE AS MALAYSIANS GRADUATE FROM TRAINING PROGRAMS AND GAIN EXPERIENCE. EXXON HOPES TO REDUCE NUMBER OF EXPATRIATES AS SOON AS POSSIBLE, BECAUSE THEIR SALARIES AND ALLOWANCES HAVE IMPORTANT BEARING ON PROFITS.

3. CONOCO IS CONTINUING NEGOTIATIONS WITH PETRONAS ON A PRODUCTION SHARING AGREEMENT ON THEIR FORMER CONCESSION AREA. ACCORDING TO CONOCO SOURCE, PETRONAS FEELS THAT CONOCO SHOULD ACCEPT SAME TERMS ALREADY AGREED UPON BY EXXON AND SHELL. CONOCO'S VIEW IS THAT THAT THEIR CIRCUMSTANCES ARE SUBSTANTIALLY DIFFERENT AND WARRANT MORE LIBERAL TERMS. CONOCO IS PRESENTLY CONSULTING IN US WITH ITS PARTNERS ON WHAT THEIR FINAL NEGOTIATING POSITION WILL BE IN PREPARATION FOR WHAT IS PRESENTLY PERCEIVED TO BE FINAL ROUND WITH PETRONAS TO BEGIN IN ABOUT TWO WEEKS. IF NEGOTIATIONS UNSUCCESSFUL, CONOCO THEN INTENDS TO RAISE MATTER WITH RAJA MOHAR OR WITH PRIME MINISTER, IF NECESSARY.

4. AS REPORTED EARLIER, SEE K.L. 1644, PETRONAS STILL HOPES TO SIGN JOINT VENTURE AGREEMENT WITH SHELL AND MITSUBUSHI FOR BINTULU LNG PROJECT BY END OF APRIL. OIL INDUSTRY SOURCES REPORT THAT TALKS HAVE NOT BEEN PROGRESSING VERY SATISFACTORILY AND THAT PETRONAS WILL HAVE TO MAKE FURTHER CONCESSIONS IF AGREEMENT IS TO BE REACHED. SHELL IS INSISTING THAT TERMS OF PRODUCTION

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SHARING CONTRACT RELEVANT TO GAS AND SUGGESTED WELL-HEAD PRICE FOR GAS ARE NOT ECONOMICALLY VIABLE AND THAT UNLESS THEY ARE CHANGED SHELL WILL NOT PROCEED WITH LNG PROJECT. COMMENT: WE DO NOT EXPECT GOM TO PERMIT PETRONAS TO PROLONG NEGOTIATIONS MUCH LONG. IT APPEARS TO US THAT GOM WILL COMPEL PETRONAS TO ACCEPT LESS THAN OPTIMAL TERMS IF THIS NECESSARY TO REACH AGREEMENT BECAUSE OF ILL-CONSIDERED AND PREMATURE ORDER OF LNG TANKERS. SENIOR GOM OFFICIALS ARE ASSOCIATED WITH THIS MAJOR MANAGEMENT ERROR, INCLUDING THE THEN MINISTER OF FINANCE HUSSEIN ONN. SHELL AND MITSUBUSHI, OF COURSE, BOTH AWARE OF THIS CONSIDERATION AND SEE THE LENGTHENING GAP BETWEEN DELIVERY OF FIRST LNG TANKER AND COMPLETION OF LNG PLANT AS WORKING IN THEIR FAVOR. WHILE SHELL AND MITSUBUSHI MAY WELL WIN THIS ROUND, IT IS UNLIKELY THAT THIS WILL BE FORGOTTEN BY THE GOM IN ITS FUTURE DEALINGS WITH THESE FIRMS. AS A PRACTICAL MATTER, A MORE FAVORABLE DEAL FOR SHELL COULD EASILY BE BURIED IN THE COMPLEXITIES OF AN AGREEMENT

AND, THEREFORE, NEED NOT COME TO PUBLIC ATTENTION. END  
COMMENT.

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C O N F I D E N T I A L SECTION 2 OF 2 KUALA LUMPUR 2710

5. PETRONAS IS FURTHER HAMPERED BY THE FACT THAT ITS  
CHAIRMAN, TAN SRI KADIR SHAMBUSSIN, IS PRESENTLY  
HOSPITALIZED, HAVING SUFFERED A HEART ATTACK. IF  
PRESENT RECOVERY TRENDS CONTINUE KADIR IS EXPECTED TO BE  
RELEASED TO HIS HOME SHORTLY FOR FURTHER RECUPERATION.  
THE PETRONAS EXECUTIVE DIRECTOR FOR EXPLORATION, RASTUM  
HADI IS NOW ACTING IN HIS PLACE BUT ACCORDING TO INDUSTRY  
SOURCES DOES NOT HAVE THE DEGREE OF AUTHORITY (AND  
THEREFORE FLEXIBILITY) IN NEGOTIATIONS WHICH KADIR APPEARED  
TO ENJOY. THE FACT THAT EXXON HAD TO PRESENT CRITICAL  
MATTERS TO RAJA MOHAR FOR RESOLUTION RATHER THAN TO THE  
PETRONAS CHAIRMAN (AS WAS THE CASE WITH KADIR) POINTS UP  
INCREASED DIFFICULTY FOR BOTH PETRONAS AND COMPANIES IN  
RESOLVING THESE PRESSING MATTERS. ANOTHER PROBLEM IS  
SIMPLY LACK OF EXPERIENCE AND PERSPECTIVE BY PETRONAS.  
AS ONE PETRONAS EXECUTIVE DIRECTOR POINTED OUT TO  
EMBOFF "WE ARE USED TO ROUNDING OFF TO THE CLOSEST 10  
CENTS WHILE THE OIL COMPANIES ROUND OFF TO THE NEAREST  
MILLION DOLLARS".

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6. NOT SURPRISINGLY, PETRONAS IS SOMEWHAT OVERWHELMED BY COMPLEXITIES AND SUBTLETIES OF NEW SUBJECT MATTER. ITS VIEW OF HOW TO HANDLE THE MATTER RESPONSIBLY IS MANIFESTED IN SLOW PROGRESS AT TIME WHEN OTHER ELEMENTS OF GOM, WITH DIFFERENT PERSPECTIVES, ARE PRESSING FOR EARLY AGREEMENT, PARTICULARLY ON LNG PLANT.

7. CURRENT: PETROLEUM SITUATION IN MALAYSIA CONTINUES SLOWLY TO BE SORTED OUT, BUT NOT WITHOUT GROWING PAINS. WE HAVE NO BASIS TO JUDGE THE OUTCOME OF THE PETRONAS/ CONOCO NEGOTIATIONS, BEYOND THE GENERAL PERCEPTION THAT THE GOM WOULD NOT WISH THE WITHDRAWAL OF A MAJOR FIRM AT THIS TIME BETWEEN OF THE ADVERSE EFFECT ON THE INVESTMENT CLIMATE. AGREEMENT BETWEEN PETRONAS AND SHELL-MITSUBUSHI IS EXPECTED TO BE CONCLUDED IN NEAR FUTURE ON TERMS MORE FAVORABLE TO COMPANIES THAN PETRONAS WOULD AT THE MOMENT LIKE TO GIVE. ITS OWN VIEW, HOWEVER, COULD BE INFLUENCED BY THE RECENTLY ANNOUNCED LIBERALIZATION OF CERTAIN PETROLEUM TERMS IN INDONESIA, WHICH PETRONAS WATCHES VERY CLOSELY.  
UNDERHILL

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